THE

PUBLIC DEBT,

ITS

INFLUENCE AND ITS MANAGEMENT

CONSIDERED

IN A DIFFERENT POINT OF VIEW

FROM

SIR HENRY PARNELL,

IN HIS WORK ON

FINANCIAL REFORM.

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THE

PUBLIC DEBT,

&c. &c.

THE work of Sir Henry Parnell on *Financial Reform* has created so deep a sensation, and the author's name has acquired so great an authority, that it would be dangerous to allow, under such auspices, errors to pass unnoticed, which, in their application, might hereafter become detrimental to the country; a consequence the more likely to follow, as the errors exist in the very *principles* upon which Sir Henry has founded his work; principles, indeed, that have been previously advocated by great financial authorities, such as Adam Smith, Say, and Ricardo, and which, therefore, might be considered to be established axioms in political economy, if the fallacies they contain were not now controverted and exposed.

This is the aim that we have proposed to ourselves in entering the *Lists* with Sir Henry Parnell; and the points intended to be attacked, being of vital importance to the future welfare of the British Empire, depending, as it does, in a great measure, on the gigantic structure of its finances and credit, it is hoped, that should the reasons brought forward fail to convince at once, in consequence of a want of sufficient development in these pages, they will at least be of a nature to engage reflection on the subject; and, by the aid of other writers impressed with their truth, eventually prove, that the thesis of political economy, promulgated as infallible by Sir Henry and his predecessors, is, in fact, not only disputable, but, on mature consideration, will be discovered to be positively erroneous and groundless.

It is, therefore, the *principles* advanced by Sir Henry, particularly those which have any reference to the National Debt, its influence, and management, which will form the subject of our examination; and we will endeavour to carry it on as impartially, and as dispassionately, as a question of a nature so serious and so essential for the prosperity of the country requires to be treated.

The debt of Great Britain, and its influence on the general welfare of the country, has given rise as yet to comparatively few controversies; nearly all writers and orators having concurred in opinion, that it has been detrimental to the public interests and prosperity. Already, in the time of William III., when the debt was in its very infancy, it was called *enormous*. A writer of great reputation, (d'Avenant,) then said, that England could not provide a revenue of more than two millions sterling, (equal to eight millions of the present time,) without ruining her trade and manufactures. During the whole course of last century, we have seen every writer assail the debt. Hume declares, that " if the nation does not " destroy credit, credit will destroy the nation." Dr. Price says, " that the evils and dangers of an " exorbitant debt are so great, that they cannot " be exaggerated," and " that we have reached " so nearly the end of our resources, (1790,) that " but little time is left to save us from impending " ruin." " An exorbitant debt," he adds, " leads " to despotism, towards which all Governments " have a natural tendency."

Kames, Adam Smith, Blackstone, Malthus, Ricardo, and, latterly, Sir Henry Parnell, all hold nearly the same language. But as experience and *facts* disavow their predictions, and as Great Britain, notwithstanding their gloomy forebodings, is still very far from the dreaded period, anticipated in their imaginations, when the imposts required by the debt would exceed the means of providing for the same, it may be useful to examine: 1. *Whether there is not misconception in the general ideas formed as to the nature of a public debt:*

2. *Whether that debt in Great Britain has actually been detrimental to the interests of the country;* and 3, Whether it is *evident*, as these writers have asserted, *that it must eventually entail national bankruptcy or ruin.*

Although we propose to argue the question *as little theoretically* as possible, and to arrive at the solution of the problem by *mathematical enquiries*, and by *demonstrations*, rather than by *general reasonings*, which never produce the same degree of conviction, still we think it right to state a *theoretical view of our ideas on the nature of a public debt;* and as they are in direct opposition to those of most writers on political economy, some of whom are put down as authorities in the judgment of the public, we, in our comparative humility, crave only of our readers to defer their decision between us, until they have examined the subsequent *arithmetical* proofs, intended to be brought forward in support of our opinion. Proofs are more difficult of confutation than a theory, which, although logical, appears to leave still an open field to doubt and controversy.

Credit is one of the great perfections of the social mechanism of modern States, unknown to the ancients, or even the middle ages. Its theory might be thus expressed :

Government is charged to do for each individual composing the community at large, that which he cannot perform for himself; to see justice duly administered, maintain inward order and tranquillity, defend the frontiers, &c. &c.; in fact, secure that happy independence and order, without which, neither person, production, nor property, can be safe, and no country prosperous. In order to fulfil these duties, Government requires money to defray the expenses of salaries to Judges, Magistrates, &c., to pay to the armed force, civil power, &c.

To provide for such expenditure, it is incumbent on the State to raise supplies in a manner least burthensome to the community, that the people may not be deprived of what is requisite for their personal comforts, and for carrying on their pursuits of trade and industry; in fact, to borrow for the use of all, that the imposts may not fall too heavy on any. Thus, the public debt consists of the capitals raised by Government in the name of the body politic, and of which every individual in the country would have to provide his share on his own credit, in addition to his personal wants, if the charges of administration were not entrusted to others acting in, or required to act in the interest of all.

This being our view of the public debt, with reference to the *theoretical character* of its origin, we must now consider its *effects* on the community, when its principles are carried into practice.

The debt is a means of circulation and reproduction, a principle of motion and activity for capitals of all kinds—a supplement even of capital. When examining the public debt in its separate attributes, in the capitals which it represents, and the revenue or interest which it distributes, the importance of its use must be approved. The engagements and contracts of a funded debt, respected as they should ever be, form part of the real property of a State, and as such they figure among the assets of personal fortune, only varying in proportionate value with land, houses, and other goods and chattels, and acquiring, through *confidence*, the *reality* and substantial influence which other property possesses by its inherent general value. Public Stock has, indeed, often the preference over material property by its easy mode of conversion into any species of property, and the facilities it affords for commercial transactions. And here the important fact must strike the reflecting Statesman, that *the true elements of public wealth are nothing else but the wealth of private individuals;* consequently, the State can truly be said to participate in the losses of individuals, and a permanent fall in the Funds, which reduces the capital of the Stockholder, affects in the same ratio the wealth of the State, notwithstanding the advantage the State derives in a reduction of the *nominal* amount of its debt, (an advantage, which, however, is more *fictitious* than *real*, as we will try to prove).

The analogy which has been attempted to be drawn between *a national debt* and the debt *of an individual*, has given rise to the greatest misconceptions into which all writers on finance, with few exception, have fallen,* and who, by their dicta, in their turn, have biassed the opinion of the public. But, in truth, no kind of analogy exists between a *public debt* and that of an *individual*. The former is, both with reference to *capital* and *interest*, a debt of the right hand to the left of the same incorporated individual, the *nation* who *pays* only what it *receives*, and *receives* only what it *pays*, and has, therefore, neither *minus* nor *plus;* but the debt of an individual is quite different; the amount does not pass from the right hand to the left of the same person, but is transferred into the

* There is only the exception of Alexander Hamilton, of the United States of America, who had discovered the secret of the creative power of a public debt, although he has but feebly developed it in his Report to Congress. We wish it were in our power to cite as an exception, also, another distinguished Statesman, M. J. Laffitte, who, in his work, "*Reflexion sur la réduction de la Rente*," published in 1824, had perfectly developed the benefits of a public debt, and whose expressions we have borrowed in some instances, being too illustrating to be replaced by others; but having, in his later publication, "*Opinions sur l'emprunt de* 80 *millions*," which appeared in 1828, attacked the principle which he advocated in 1824, we dare not quote his authority in our favour.

Mr. *Ouvrard* has been more consistent in his principles, having always acknowledged the benefits accrued to France, by adopting, in 1817, the system of funded Stock.

hand of another, leaving the individual paying with a decided *minus* of means. The case is, therefore, widely different; and it is only surprising that a thesis, so thoroughly erroneous, has maintained itself so long, and that it should have been supported by authors of such eminent merit, as Adam Smith, Ricardo, Say, and Sir Henry Parnell.

This is merely the theory of our opinion on the nature of an *internal* debt, such as Great Britain's; for as to *public debts contracted with foreigners*, the interest of which is to be paid *out* of the country, they are very objectionable, since they possess all the reputed evils of an internal debt, without any of its advantages.*

We shall now proceed to the special examination of the advantages or disadvantages resulting to the community at large, from a great public debt; and in this investigation, we shall follow the path pursued by Sir Henry Parnell, in his work on Financial Reform.

Sir Henry, in Chapter XIX. on the *National Debt*, says, (pages 265, 266, third edition:)—

" As the great amount of the debt has produced
" a very general opinion that England cannot

* It is well known, that part of any debt may be in the hands of foreigners, and that such is the case with the one in question; but it is also known, that such partial prejudice is amply compensated by the large amount of Foreign Stock and Bonds being held by British subjects.

" embark in new wars, without destroying her
" trade and manufactures, and without so ex-
" hausting the resources of taxation as to incur
" the calamity of national bankruptcy, it is im-
" portant to make some remarks on the funding
" system, by which the debt has been created,
" and to trace its effects on the industry, wealth,
" and power of the State."

" It is now, while we are at peace, that it is
" proper to make those investigations which are
" necessary to enable us to form correct opinions
" respecting the injury which the debt has already
" occasioned, and respecting the probable injury
" which will be the result of making additions to
" it. This opportunity ought not to be neglected
" for considering these questions, and for digest-
" ing and maturing those measures, which, after
" a full examination of the financial circumstan-
" ces of the nation, may appear most fit to be
" adopted. But before going into this subject,
" a few remarks will be made, to explain what
" the extent of the evil is, which the Debt has
" produced."

" After the capital of individuals gets into the
" hands of Government in the shape of a loan, it
" is immediately paid away in purchasing stores,
" provisions, or in providing the instruments and
" materials of war, that is, on *perishable commo-*
" *dities*. So that, at the end of a year, or at most
" a few months more, it is turned away from

"serving in the function of *capital to serve in that* "*of revenue, and it is spent and wasted, without even* "*the hope of any future reproduction.*"

"If the capital which, from time to time, has "been contributed to loans, had not been so "applied, it would still be in existence, and it "would have been employed in carrying on some "trade, with the ordinary rate of profit, so that "it would, every year, have been augmented. "The debt, therefore, has not only diminished the "wealth of the nation, by the actual amount of "the capital subscribed to it, but by the amount "also of the accumulation of new capital, which "would have followed from the lost capital being "productively employed."

"This is the great evil which has arisen from "the funding system; and had it not been for "the wonderful energies of the country in accu-"mulating new capital, to replace the immense "amount that has been extinguished, poverty "and ruin must have been the result."

Sir Henry has here made use of the very same expressions as Adam Smith, in his celebrated "Wealth of Nations," to prove the calamities resulting from a National Debt; and *as this argument is the only one, brought forward by Sir Henry in support of an opinion which forms the ground work of his structure, it is this argument principally that we shall attempt to refute.*

Adam Smith, and Sir Henry Parnell, assert, that " The capital of individuals passed into the " hands of Government in the shape of loans, is " immediately paid away in purchasing stores, " provisions, or in providing the materials of war, " that is, on *perishable commodities*."

By what motives are individuals actuated who place their money in the public Funds, or subscribe to Government Loans? Let it not be supposed that they are in general cases instigated by patriotism, or by an anxiety to afford assistance to Government in its necessities. Such notions would be absurd. The fact is, that individuals invest their money in the Stocks for want of a more profitable employment for it; they being obliged to let their capital otherwise remain idle, or to embark it in hazardous speculative enterprizes. But even granting that this capital had been employed more advantageously in the pursuits of trade, industry, and agriculture, still the *produce* resulting from it would always have been of a nature quite as *perishable** as those commodities produced by the sums lent to Government, and employed in the purchase of stores, provisions, or instruments and materials of war. Some of these articles are the produce of industry and trade, others of agriculture; all afford a livelihood and profit to those who manufac-

* All articles produced by means of money are perishable; it is, therefore, difficult to conceive what Adam Smith, and Sir Henry, intend to infer by perishable commodities, produced by the debt.

ture, sell, or cultivate them. These profits, in the hands of the traders and cultivators, produce *savings*, which again form *capitals;* and, therefore, *it is, in fact, but an additional means of increasing the circulation of the country, by giving employment to capitals which otherwise would have laid dormant, or been invested in uncertain undertakings.*

With regard to that part of perishable commodities referred to, such as " instruments, and materials of war," on looking over the map of the world we shall see that they have not had an ephemeral existence. Without them, Great Britain would neither see, as she now does, her victorious trident floating in every sea, nor would she possess a conquered empire of above one hundred millions of inhabitants in one hemisphere, and in the others rich colonies or military positions, enforcing respect for her power; she might, on the contrary, have been obliged to strike her flag to a rival power, which, under the dynasty of the Napoleons, would then have maintained its political supremacy in Europe, and whose overthrow is principally due to the immense development of strength which the debt called into action.

To return, however, to the sober reflection necessary for a discussion on financial matters, Sir Henry, when speaking of the money invested in funds, or public loans, says, " That it is turned " away from serving in the function of *capital*, to

" serve in that of *revenue,* and is spent and wasted " without even the hope of any future reproduc- " tion."

Sir Henry says, (page 269): —

" On the other hand, the public derives some " advantage from the debt; for *it serves to promote* " *the accumulation of capital,* by affording, with " very little trouble or expense, the opportunity of " investing money in stock, with the certainty of " receiving the interest upon it on a fixed day, " and with the power of getting immediate pos- " session of the principal, whenever it may be " wanted."

But if the debt promotes *the accumulation of capital,* by affording, with very little trouble or expense, the opportunity of investing money in stock, with the certainty of receiving the interest upon it, on a fixed day, the money *is not turned away from serving in the function of capital, to serve in that of revenue.*

Sir Henry having thus, by a second opinion, refuted victoriously his former one, leaves us in uncertainty which of these to adopt; we shall, therefore, proceed to analyse the question, that we may arrive at its correct solution.

The investments in the Funds possess *both* characters described by Sir Henry Parnell; partly they are *savings* placed in the Stocks, partly they are *capitals,* which, by the use Government makes of them, are dispersed into circulation to form new savings, and new capitals in other hands, or in the same hands.

It is, therefore, unfair to ascribe either of these properties exclusively to the debt, for *it disperses* capital, and it *creates* capital, and it is impossible to ascertain which of these effects *preponderates;* therefore, on this point, the debt deserves neither blame nor praise. Although our opinion leans more in favour of its contributing to the accumulation of capital, than to the dissemination of it, still, as this position is as difficult of being proved as Sir Henry's, impartiality imposes the obligation of leaving the question in *statu quo, ante bellum.*

Having thus attacked the principal arguments of Sir Henry, we now come to the practical inference he draws from it, and which, in political economy, as well as in every thing else, is the main point for enquiry and decision.

Sir Henry says, page 268 :—

" Our present situation, in consequence of the " extent to which taxation has been carried, for " providing the interest of the debt, ought to " remove all doubt concerning its destructive cha- " racter ; for we certainly are less able than we " ought to be, to resist whatever attacks may be " made on our freedom and independence, as " well as to interfere with decisive effect in " defence of the liberties of others."

A cursory retrospect of the history of the country, will best enable us to refute Sir Henry, and will shew whether the power and wealth of Great Britain have actually declined since the creation and increase of the public debt, or whether the country has not rather attained a degree of power and wealth, which the most sanguine mind could never have anticipated.

In referring to the origin of the public debt, we trace it to an early epoch after the Revolution, which placed William III. on the throne, in 1688, till which period the finances were in a bad state, *without debt*, but *also without credit*.

In this reign, (William and Mary,) Government encountered great difficulty in borrowing the most trifling sums, at a less annual charge than seven or eight per cent.; and millions can now be raised with much greater facility than thousands could be obtained, during the first 30 years of the reign of George III. Interest on money has since fallen gradually to 6, 5, 4, and $3\frac{1}{2}$ per cent.; at which latter rate it may be stated now; and to this low rate of interest, we may partly ascribe the possibility of the productions of British industry being able to compete in foreign markets, notwithstanding their heavy taxation; this competition being assisted by the perfection of an expensive machinery, (which again is the fruit of the superabundance of the capital of the country,) and which thereby diminishes the cost of production to such a degree as to procure an almost universal preference to articles of English manufacture.

In the reign of William and Mary, *good* land was let at little more than *one* shilling per acre, corresponding to four shillings of the present standard of value; the expenditure then amounted to £7,000,000.

The acre of good land *now*, lets, on an average, at 40*s*., and the expenditure amounts to 52 millions.* The present expenditure amounts, therefore, to about seven and a half times as much as that in the time of William and Mary, while the rent of land has increased ten fold; say, from four shillings to forty. The country, therefore, contributes now, comparatively, to its income only three fourths of what it did then, the fullest allowance for alteration in the value of money being made.

In 1672, Charles II. had incurred bankruptcy for a sum of £1,328,516., the interest of which, £79,711., continued to be paid for some years, but ceased previously to his death. The creditors pursued their claims in the Courts of Justice, and obtained a verdict against Government, in 1697, for £3,428,526., including twenty-five years interest. Government, however, being the strongest

* The expenditure of 1827 was £55,744,863.; but as a diminution of between three and four millions have been made since 1827, the expenditure can be calculated now to be 52 millions.

party, overthrew the decision; and in 1699, by a single stroke of the pen, cancelled the above debt, substituting in its stead a sum of £664,263., which forms the foundation of the present debt of Great Britain.

Since that period, the public debt has gone on increasing. It was,

	Millions.
At the Accession of Queen Ann -	16
At that of George I. - - - -	54
At the close of the War with Spain	78
At the beginning of the French Revolution, 1793 - - - -	252
At the Peace of Luneville, 1803 -	570
And at present, it is about - -	780*

In order to apply this well known specification to some purpose, and to shew whether the facilities of the country to bear the weight of the debt, and its annual charge of interest, have diminished, in proportion to the increase of the debt; and whether it is true, as Sir Henry, and his predecessors, have asserted, that "we are less able than we "ought to be to resist whatever attacks may be

* Capital of debt unredeemed	£777,476,890.
Long Annuities	1,331,458.
Imperial and Exchequer Annuities ..	67,718.
Life Annuities	617,537.
Annuity, payable to the Bank	585,740.

" made on our freedom and independence, as well " as to interfere with decisive effect in defence of " the liberties of others," it is necessary to draw a parallel between some of those periods and the present one; and we shall there find such an arithmetical solution of the problem, as will remove all doubts on the subject.

At the beginning of the French Revolution, the public debt amounted to £252,000,000, and the annual charge for interest was £9,500,000.

Mr. Lowe says, in his work on the State of England, that the taxable income amounted, in 1793, to £125,000,000.

Thus the interest of the debt, in 1793, consumed one-thirteenth part of the income of Great Britain.

The debt amounts at present to £780,000,000, and the annual charge for interest to £28,000,000. The income can now be computed at £350,000,000;* and thus the interest of the debt at present, and which constitutes the *only true burthen*, or *imputed* burthen, still does not consume more than about one-thirteenth part of the income.

* Mr. Ricardo has computed, in 1819, the general income at 300 millions; as 12 years have elapsed since Mr. Ricardo made this calculation, and as similar proofs can be referred to, shewing a continued increase of production, it is within bounds to compute it at present at 350 millions.

The increase of a million a year in the rateable income of Lancashire, stated by Sir Robert Peel, in the House of Commons, to have taken place between 1815 and 1829, sustain this conclusion.

It is, therefore, evident, that notwithstanding an increase of 538 millions to the amount of the debt since 1793, the interest which constitutes its actual burthen does not require a greater proportion of the income of the country for its payment than it did in 1793; and, therefore, *the increase of means to provide for the interest has kept pace with the increase of the debt itself.*

In this respect, the case is analogous with the State and individuals. It is preferable to be rich though having much to pay, than to be poor, and be called upon to expend in proportion; and it follows, that Great Britain, in 1831, with a debt of 780 millions, and an income of 350 millions, is much wealthier than Great Britain, in 1793, with a debt of 252 millions, and an income of 125 millions; for deducting one-thirteenth part of the income of each period for the charge of interest, it will leave to Great Britain, 1831, an excess of income of 322 millions; whereas, in 1793, the excess of income was only 116 millions.

This statement is *positive,* and furnishes a mathematical proof against the assertion, that the country has been ruined by the debt.

A comparison between the totality of the taxes at present, with what they have been, would offer a still more favourable result. In 1806, for instance, the income of the country, according to Lowe, was 170 millions, and the expenditure 60 millions, being more than one-third of the income; whereas, now, the expenditure of 52 millions does not amount to more than about one-seventh part of the income, 350 millions.

This result, so very satisfactory, as a *positive fact*, is still more so, in a *relative point of view*, when compared with the financial state of nearly all the other Powers of Europe.

As an example, we may be allowed to notice France.

During the Consulate and the Empire under Napoleon, the Budget never exceeded 30 millions sterling; during the reigns of Louis XVIII. and Charles X. it was increased to 40 millions, and has now been carried to 44 millions; although, if her income be increased at all, it has not been increased in any proportion, approaching the increase that has taken place in England. In the financial condition of one of these rival Powers, we see an immense increase of income, and a considerable diminution of expenditure; in the other, a trifling increase of income, with a gradual but rapid augmentation of expenditure; while both have had the privilege of enjoying, with a very partial exception, a state of peace.

The difference of the state of credit which Great Britain presents, when compared to that of France, is still more striking. You will find the French 5 per cent. Consols quoted at 85, when the 3 per cent. English are as high as $83\frac{1}{2}$.

We will adduce another *positive* proof in support of our opinion, viz. the immense increase of precious metals in Great Britain, during the period of the development of her credit.

According to Dr. Price, the gold and silver in circulation in the three United Kingdoms, in 1773, amounted to about sixteen millions; at present, it can be valued at fifty millions, having been trebled since the above period, and thus affording proof how the financial situation of the country has been ameliorated during the last fifty years, which is also the period of the greatest increase of its debt.

The foreign trade of Great Britain presents the same results. About half a century ago, it was nearly equal to that of France, now the *whole* exportations of France are valued at forty millions sterling, whereas the official value of exported British and Irish *manufactures* amounted yearly to fifty-five millions, although the population and geographical surface of Great Britain are so inferior to that of France.

Sir Henry says, page 269: "There must be a "limit somewhere to taxation, beyond which, if "it be carried, national decay will follow; and, "surely, a debt of nearly 800 millions, requiring "28 millions of taxes for interest, must *have* "*brought the country a long way in the course of* "*approximation to that limit.*"

Let us see what Sir Henry says, pages 4 and 5:

" Notwithstanding the very injurious effect of " many of the taxes, taxation has not yet been " carried to such an extent as to place this coun- " try either in a declining or stationary state with " respect to its agriculture, manufactures, and " commerce. This is a conclusion come to by " reasoning on facts, which show the continued " accumulation of wealth in defiance of all impe- " diments; it is a conclusion in no degree ori- " ginating in any preconceived theory, nor does " it lose any of its claim to have confidence placed " in it, by its being directly opposed to the opi- " nions of a number of persons, who maintain that " the nation is in a declining state, because these " persons wholly omit to sustain that opinion by " any reasoning whatever. They merely exclaim: " Look at the National Debt, the distress of " agriculture and manufactures!" but they forget " that the country was in the highest state of " prosperity in the years 1823, 1824, and 1825, " with the same debt and taxes which now exist, " and that similar distress to what now pre- " vails (February, 1830,) has been a matter of " regular occurrence, and regularly followed by " recovery, as soon as the disturbed proportion of " supply to demand is restored to its proper ratio, " an event which happens as a matter of course, " from the operation of the common rules by " which trade is carried on."

These are very good arguments against the fears expressed by Sir Henry, page 269, but there is another one, still more convincing, which he quotes, page 271, where he says: "That a pro-"perty tax of ten per cent. throughout the United "Kingdom should now yield a much larger "revenue than it did in 1815, in consequence of "the increased wealth of the nation since that "time, notwithstanding the reduction of rents "which has taken place."

Sir Henry has calculated that this tax yielded, in 1815, a revenue of 18 millions, and adds, "If "no more than 19 millions were required, in "addition to our present expenditure, *there ought* "*to be no difficulty in raising it.*"

We ask, then, has the country reached that limit of taxation, beyond which, if it be carried, national decay will follow? No, positively not; for the resources of the country have not alone been developed as the debt advanced in amount, but the original resources themselves have acquired additional power under the influence of that very increase. The enormous capital which the debt represents, directed into the circulation of the country, enlivens commerce, industry, and agriculture. Cancel the debt, and Great Britain sinks, like a giant deprived of the requisite supply of nourishment.

We will here introduce a calculation of how much the public debt might be even yet increased, without interfering in the least with the prosperity of the country at large.

An income tax of 10 per cent. would produce a revenue of 20 millions, representing, at four per cent. interest, and a sinking fund of one per cent., a capital of 400 millions. The debt might, therefore, be increased from 800 to 1,200 millions, and still present the same security as it does now; but the progression might be even extended, when we consider that this creation of 400 millions of new stock, would in turn create new capitals, which, again paying income tax, would augment the produce of the latter, and thereby add to the means of funding more stock.

Let it not be supposed, that this calculation is intended to prove the *utility* of increasing the public debt to that amount, or the propriety of making *any addition at all to it*; it is only meant to shew that it is still practicable; and that this extreme limit, to which Sir Henry and his predecessors in political œconomy, for more than a century, have alluded and predicted as at hand, *has not yet been reached. It is a limit, indeed, which may be compared to the illusion of the Mirage in the desert, that constantly dazzles at a short distance before the eyes, but never permits closer approach.*

We are far from saying that a public debt is not accompanied with some inconveniences, which principally consist in the fact, that the increase of taxes necessary to provide for the interest of the debt, forces up the prices of the necessaries of life, which, in their turn, raise the price of the produce of manufacture, and render them more difficult of sale in foreign markets. We allow, however, that these inconveniences have been much over-rated, from the plain reason, that every body paying taxes feels the immediate evil affecting his own interests, whereas few people choose to reflect on *the general benefit resulting to the community at large.*

The greatest evil attending the increase of taxes, and the rise of prices thereof following, is, that it begins *at the wrong end*, by the *proceeds* of labour, instead of the *pay* of labour. The landed proprietor and his tenant are taxed, the one exacts a higher rent, and the other a greater price for his produce; but, as the demand for labour has not increased, and improvements in machinery and larger farms have a tendency to diminish it, the wages of labour do not experience a corresponding advance, so that the labourer can no longer procure, with his usual salary, the common necessaries of life for himself and family.*

* Social institutions are not, after all, chargeable with this consequence; the savage who roves uncontrolled by laws through the wilderness, is still more immediately under the tyranny of want, than the labourer of the fields of Europe; and the unanswerable proof is, that he multiplies less. But the one is overtaken by an invisible hand, and the other sees

There is another cause in action to prevent a due proportion of wages, compared with the prices of commodities; it is the too great competition occasioned by the influx of the Irish labourers into England.

Ireland, within itself, presents the best remedy for giving employment to its population. But it is not by a reduction of the debt that you can expect to attain this desirable end; on the contrary, increase it from 800 millions to 850 millions,* ex-

it, and soon learns to detest it. The savage cannot feel resentment against the deer which flies before him, or the fish he cannot catch. The land he did not sow, cannot be expected to yield any thing to him; but the labourer, who sows and does not reap,—who sees abundance all around him,—who creates it, in fact, and does not partake of it,—and against whom a terrible law pronounces sentence of death, if he should enter that granary which he filled, to take what his salary does not suffice to purchase,—needs much virtue and a sort of practical morality, very meritorious, to resign himself, and endure in peace. He has a wife and three children, perhaps, and earns their bread with great difficulty; but without this social order, he might be told, without this rigorous right of property, his family might have already died with hunger, or probably neither himself nor them would have ever existed. Under this social order, his neighbour rolls in wealth, while himself is restricted to mere necessaries; yet without it, neither of them would have had these mere necessaries. All this is undeniable; but, if I may be allowed to use a common expression, more energetic than elegant: "Ventre affamé n'a point d'oreilles." (Simond.)

* The increase of 50 millions in the Public Debt would probably not diminish the value of capitals in England;

pend these 50 millions on Ireland; and, instead of a yearly return of four millions, the result will be a yearly revenue of ten millions, yielding thus an excess, not alone sufficient to cover the annual charge of interest on the new debt, but an adequate amount of sinking fund; and in the short space of thirty-six years, the natural consequence will be seen in the Sister Island's wealth, and sincere attachment to the English connexion.* England would derive still greater benefit from these measures, by creating in Ireland that *amount of demand for the products of her industry, which she is now obliged to seek in the remotest regions of the globe.* In Ireland, she has, at her very threshold, millions of fellow subjects, who have only rags for covering; mud huts for shelter; and not even bread for food.

Let this unnatural state of things be remedied, and the evil which now oppresses the working classes in England, "*low wages,*" will be at once removed. No artificial means can succeed, it is only by diverting the great competition for work,

but, if so, it is the sole mode of taxing capitals, out of which the revenue of the State does not derive any *direct* benefit.

* Lord Glengal's plan, (a local Public Debt on the principles of those established in the United States of America,) carried on a large scale, would offer a fair chance of prosperity for Ireland.

into a natural channel, that a favourable result can be expected.

But, if the above mentioned plan be not resorted to, for restoring the equilibrium which ought to exist in every well-regulated community between wages and price of food, that effect must be obtained by forcing a reduction of the latter. It is the only alternative; and the repeal of the Corn Laws, or at least their modification, offer infallible means for attaining this end; but this way of removing the evil appears, however, less advisable than the former; for, surely, it is preferable *to raise Ireland to a level of prosperity with England, than to lower the latter to the level of Irish wretchedness*; which would certainly be the consequence of a total repeal of the Corn Laws, as far at least as the most important interest of the Empire is concerned, viz. *the agricultural.*

Another inconvenience inherent to the repeal of the Corn Laws, is the difficulty that would arise to maintain the *Poor Laws;* for although these laws require a strict revisal, still they could not be entirely abolished, without involving the country in great embarrassments and dangers in times of manufacturing distress.

But to return from this digression to the enquiry into the character and effects of the public debt, we must refute the reproach cast upon credit, by saying, " that it furnishes a bad Government with a dangerous power, and lasting securities, because capitalists are interested in its existence, as creditors are in the existence of their debtors."

It is an egregious error to suppose that the existence of a bad Government would be secured by the debt, because, in our days, the debts are not *ministerially* personal, because they descend as an heirloom in trust to all Governments, however composed, and because the private interest of some capitalists cannot fetter permanently the expression of public opinion in defence of general interests. We allow, that, in the hands of a bad Government, credit is a dangerous tool; but every thing is dangerous in such hands; the very best institutions may be turned into engines of mischief. But are these a reason sufficient for destroying or injuring credit, or irreparably subverting useful establishments?

The public debt forms a link of confidence between Government and the subjects of the State. When a public debt is created in a rich and powerful country, of sufficient magnitude to form a considerable part of the patrimony of the subjects of the State, Government becomes the real guardian of the Creditors of the Exchequer; the special protector of the means of subsistence of that multitude of families inscribed as co-proprietors in the books of the National Debt.

To bind the greatest number of individuals to the public wealth, is to establish among them a sure pledge of order and stability; in fine, the conservative interest of property embraces every other. To diffuse public prosperity over all classes of the community, is to create a demand for its increase; a people cannot remain stationary; every thing tending to favour the ascending motion of society, becomes therefore a pledge of security and confidence for the whole community.

If a National Debt formed a bar to the prosperity of a country, it follows that those countries which are not shackled with any, ought to make rapid strides towards the possession of wealth, national and individual; we know, however, that there is a kingdom in Europe, without a shilling of public debt, whose revenue exceeds its annual expenditure; whose soil is fertile, and rich in mines and forests of considerable produce, and which, accordingly, ought to be very prosperous; but the reverse is the case; capital is wanting for enterprise: the rate of interest is too high, which prevents capital from being turned into trade, industry, or agriculture, and thus all these branches of public prosperity languish. What then is the true cause of such inertion, and why do an industriously disposed and hardy people, under a Sovereign most zealously desirous of promoting its welfare and improvement, remain in a state of comparative poverty and inactivity? Why is Sweden in such a condition? Because, she wants *an* *internal National Debt,* which alone can stimulate circulation, and create an invigorated spirit of enterprise.

We may also here advert to another way of stimulating public credit, on account of its direct connexion with a National Debt—we mean the banking system.

In the United States of America this system has been introduced with considerable effect, and has acted as a lever, by means of which that country has extricated herself from her morasses, cleared her forests, cultivated her wilds, and has created, in fact, in the shortest time possible, almost as by enchantment, all that constitutes the elements of civilization.* But this system, too much extended, is not without its inconvenience, whereof the many failures of local banks in most districts of the United States exhibit the strongest proofs.

The success of this plan depends, besides, entirely on the spirit of enterprise and confidence of the people by whom it is adopted. In the United States, banks of this description, known to have circulated notes to the amount of ten times their

* The United States Bank, which is one of the best conducted establishments in the world, has rendered the greatest benefit to all the States, by lowering the rate of discount and of interest, to a very considerable degree, and facilitating commercial transactions through the whole Union, for the benefit of all the States.

real capital, and which have stopped payment at the first run upon them, have again risen and flourished with the celerity of a mushroom's growth, and the strength of the oak.

The very principle of these private banks is to put into circulation a much larger capital than they really possess, and one, which affords them the only means by which the interest of the capital, and the expenses of management of their establishments, can be covered: thus a *fictitious capital* is created, which, however, so long as its credit is maintained, answers all the purposes of a *real one*, by providing a circulating medium for the country.

A National Debt offers *the same* advantages, with more security, although the capital represented by it be fictitious; it operates on the circulation of the country as if the whole capital were real; the money lent to Government returns immediately into circulation, and the amount of stock remains, to fulfil all the functions of solid, real, and active property.

It is advanced by the opposers of public debt, that capitals invested in it would be employed with more profit if allowed to circulate in private, instead of Government channels; *but, in this very argument, lays the fundamental error of the system.*

Can it be supposed, for instance, that the sum of seven hundred and seventy-seven millions, now forming the *funded stocks*, could have found employment among individuals in addition to the sums already applied to private transactions; and that this further outlay could have been employed in a manner as fructifying, or more fructifying than has been done under the direction of Government, by whom it has been returned directly into the circulation of the country? For our part, we doubt it, and for the reasons we have already assigned at full length.

Look at the *Scotch Banks*, and *the Savings Banks*—they collect the small savings of individuals, and transform them into capitals; the effect of these, on a small scale, is *produced by the public debt on a large one*. Without the debt, Great Britain would feel the want of the capital which it represents, and which has acted as the great lever of all her enterprises of industry, commerce, and agriculture.*

The sinking fund is to the public debt, what

* Mere revenue, or stationary income, has seldom a reproductive quality, and hence the proportion between capital and revenue seems every where to regulate the proportion between industry and idleness. Wherever capital prevails, industry, producing some benefit to the country, is active. Wherever revenue is to be found, it is generally surrounded by idleness or unproductive labour.

It is capital, therefore, and not revenue, that gives impetus to the productive labour of all countries in a state of civilization. The larger the capital is, the more abundant are the resources for the beneficial employment of the people; and cash payment is to private banks; both are intended to maintain credit by answering all demands for outstanding bonds or notes, requiring to be realised; but the preference of the public debt over private banks, is founded on that *more permanent confidence which is felt in national over private institutions*; thus, while the private banks are obliged to keep in cash, at least, one tenth of the amount of their circulation, the public debt maintains its credit, by keeping up a sinking fund of only one per cent. The debt, therefore, in this point of view, as in so many others, is the best means for stimulating the public credit of a country, and far preferable to those offered by private banks for the same purpose and end; but the one institution does not exclude the other; on the contrary, one is a natural consequence, a *sine que non* of the other, and which we shall attempt to exemplify in the following manner:—

Where funded stocks exist, a private bank can be established with more security; for in its circulation of £1,000,000. it can still derive profit, if it has one third of the amount in cash, and two thirds invested in stocks. Without stocks, the profits must be made on the excess of the amount put into circulation, beyond the amount of real pro-

in proportion to the means which a nation possesses of exporting the surplus labour thus produced, so will be the increase or the diminution of the prosperity of a country.—***P. Colquhoun***, *p.* 118, *Second Edition.*

perty, but which is an adventure liable to frequent and great losses. The English private banks have this preference over those of the United States; the former are in great measure based upon stock, the latter upon silver deposits.*

It is with nations, as it is with individuals, who are in the course of acquiring property. At first, the progress is slow, until a certain amount is obtained; after which, as wealth has a creative power, under skilful and judicious management, the accumulation becomes more and more rapid, expanding itself in all directions, diffusing its influence wherever talents and industry prevail, and thereby communicating the power to thousands

* We are well aware that there exists a public debt in the United States, but the amount of it being very much reduced, and diminishing more and more every day, cannot be taken into consideration. Its effect is now partially superseded by *private banks,* as it has been mentioned here above, and partially by *local public debts.*

The mode of introducing a *local public debt* in the United States, is as follows:—A tax is agreed upon between the citizens of a whole State, or of part of it; *a loan is founded on that tax,* the interest, as well as the sinking fund of which are payable out of that very tax; the amount of the loan is put into circulation by bills, which, employed in some public undertaking, become beneficial to the community, by whose cooperation the loan is created. Thus, a large floating capital is formed, where none formerly existed, and the whole country derives immediate compensation for the sacrifice spontaneously imposed.

of acquiring riches, who must have remained in poverty in countries less opulent.

The imagination cannot form a just idea of what Great Britain would be without her debt, and the low scale to which she might rapidly be reduced in the estimation of the world; her debt constitutes the strength of her credit, and, without it, she would be deprived of this first principle of the prosperity of a country. Where there is no public debt, the capitalist, in want of this kind of investment for his capital, or his savings, is obliged to adopt other means for placing out his surplus funds; such as lending on mortgage, houses, land, discounting bills, &c., or embarking in speculations of all kinds. But if Government should then require a loan, what would happen? It could not be accommodated; for capitals vested in the above-mentioned ways, are *not disposable* "on demand." The country is then placed in the unpleasant dilemma, either to be without the means of making a loan, (which, at times, might be indispensable for its service,) or be obliged to raise it, at a great expense, and under great disadvantages, in foreign countries, or again to see the capitals of its subjects withdrawn from the channels of trade and industry, and the mortgagers forced by their creditors to sacrifice their property at a ruinous rate, in order to pay off their mortgage, and thereby enable the creditors to take a share of the loan.

It is then quite evident that the public debt stimulates the credit of the country, which, without debt, would pine for such a financial element to promote its healthful growth.

A single instance will suffice to prove the difference of credit enjoyed by a country like Great Britain, with a large internal debt, and one which does not possess this advantage.

In 1829, when the Chancellor of the Exchequer required a loan of only three millions and a half, in the course of forty-eight hours no less than twenty-seven millions were subscribed to it in London; and the whole of these twenty-seven millions might have been borrowed at the low rate of three and a half per cent. interest; while the powerful Empire of Russia (which is without any *internal* debt) was obliged, in the course of the very same year, to pay five and a half per cent. interest for a loan of two millions and a half, contracted with the House of Hope and Co. of Amsterdam; and even at that rate it found difficulty in obtaining the loan.

An argument has been frequently advanced, which, at first sight, might appear correct, but which, on maturer reflection, proves to be only a sophism; namely, it has been said, that if a public debt contributed to the prosperity of a country, it would be easy enough to acquire wealth by getting in debt. But, in the first instance, a country cannot create an internal debt at will; it requires a *stock of disposable capital,* which afterwards generates and *accumulates with the debt.* Every country in its first steps towards the establishment of public credit, is circumscribed in its financial means, but these means increase with the expansion of credit, and eventually add to the real stock of public riches.

The example of Russia, which we have noticed, is an evidence that a public debt cannot be created by an Ukase, it can only be contracted *gradually,* according to the increasing wealth of the country, and the provided means of development. The debt itself is, then, an efficacious medium for the production and acceleration of this development, and is not only a *proof* of wealth, but also a *medium* by which it is acquired.

Having examined the public debt in its properties and bearings on the welfare of the community, we shall take a cursory glance of the subject of its *management;* and here, we are sorry to acknowledge, that we differ again from Sir Henry Parnell.

In Chapter XXI. Sir Henry discusses the complicated question, whether is it most advantageous to the public to borrow, in a nominal capital, or to raise loans on stock of the same amount as the sums lent.

Sir Henry admits, page 278, that the loans raised in a nominal capital, according to the system introduced by Mr. Pitt in 1793, have been obtained *at a lower* rate of interest than could have been obtained for loans on stock, of the same amount as the sums lent.

This admission of Sir Henry's is fully borne out, in the higher rate of interest which the five per cent. stock bore above that of the three per cent. stock, from 1792, to 1816. But Sir Henry adds: " If the millions of money which were " borrowed between 1792 and 1816, had been " borrowed on stock, bearing five, six, or seven per " cent., according to the rate which circumstances " of the time of borrowing made unavoidable, the " *public would have since been able to reduce the* " *charge, one, two, or three per cent. on the amount* " *of the sums borrowed, in consequence of the re-* " *duced rate of interest on money.*"

In order to judge of the correctness of Sir Henry's position in this respect, it behoves us to examine ;—

First, If the saving to the public, from 1792, to 1816, by the payment of a lower rate of interest on loans, made in a nominal capital, than would have been paid on loans made in stocks of the same amount as the sums lent, does not exceed the advantage which the public would derive, if the nominal amount of the debt were less than at present.

Secondly, Whether Sir Henry's supposition is correct, that, as a matter of course, " the public " would have since been able to reduce the " charge, one, two, or three per cent. on the

" amount of the sums borrowed, *in consequence of* " *the reduced rate of interest on money.*"

If, as Sir Henry says, " loans in stock, of the " same amount as the sums lent, could not be " obtained, but at a higher rate of interest than " loans in stocks of a nominal capital," it is very clear, that there has been a *saving* of interest; and does not this very saving provide a sinking fund fully adequate for the compensation of the nominal increase of capital, and for the total extinction of the principle, in due time?

Admitting the difference of interest to have been one per cent., the saving of this one per cent., employed as a sinking fund, with compound interest, would have redeemed, in thirty-six years, the capital borrowed, (the redemption being made in the five per cents.;) and as, since the greatest part of these loans were raised, thirty-six years and more have now elapsed, it follows, that the profit which has accrued to the public, by payment of a less sum for interest for a considerable number of years, exceeds that which would have accrued to it, by the mere circumstance of the nominal capital of the debt being less than it is at present.

By calculations, which Sir Henry restricts to the year 1802, but which, to be strictly impartial, he ought to have carried on to 1816, he attempts to prove that the difference on the two kinds of loans has only been 12*s.* 6*d.* per cent.; still our reasoning holds good; for, although the number of years required for the redemption of a capital, with a sinking fund of only 12*s*. 6*d*. or $\frac{5}{8}$ per cent., would be naturally greater than if there had been a sinking fund of one per cent. in action during that time; the argument, founded on arithmetical truth, remains uncontroverted. But if the saving, thus accrued, has not actually been employed towards the redemption of the debt, the fault does not lay in Mr. Pitt's system, attacked by Sir Henry; for its very first rule imposed the obligation to set aside, yearly, one per cent. of the capital, to act as a sinking fund for the redemption of the debt. If, however, circumstances have prevented a strict adherence to the system, some diminution of expenditure has resulted during the suspension of the redemption, equally to benefit the public.

Having now considered the question under the most favourable point of view to the system of Sir Henry, and granting the fulfilment of his own position, "that the public would have since been able to reduce the charge, one, two, or three per cent. on the amount of the sums borrowed, in consequence of the reduced rate of interest on money," it becomes incumbent on us to investigate it under a different aspect; namely, in a case where Sir Henry's supposition has not been realized, and the rate of interest has not fallen one, two, or three per cent., which must be admitted to be a possible case, as the rate of interest in the market is principally ruled by that of the public debt, and does certainly not take precedence in a fall. In this case, then, the public would not only have lost the many years savings of a less rate of interest disbursed, but would even, to this day, be encumbered with the same burthen, and still have to pay five per cent. interest on the debt, whereas, now it pays only about three and a half per cent.; and granting that the debt would figure in a less nominal amount, the interest upon it would still require greater sacrifices on the part of the public.

But, in order to give an arithmetical test of this position, and prove that it is more advantageous to the country *to borrow in a nominal capital, at a less rate of interest*, than to pay *a higher annual charge for interest on the capital actually received*, we shall state the problem as follows;—

Two countries, commanding an equal degree of credit, require a loan of eighty millions.

One borrows in a nominal capital of one hundred millions, at four per cent. interest, and receives eighty millions in money;

The other receives the eighty millions in money, and acknowledges this capital as a debt, paying five per cent. interest per annum.

Thus, both are encumbered with an annual charge of four millions for interest, and both receive eighty millions in cash. The latter would, however, have the advantage over the other, in as much as a debt of eighty millions is sooner redeemed, than one of one hundred millions.

But the question ought not to be put in that way; for the fact is known to be, that, in borrowing *in a nominal capital, the rate of interest is reduced in a proportion, that the equality of credit of the two countries would not otherwise admit.*

The country, therefore, which borrowed in a nominal capital of one hundred millions, instead of receiving eighty millions of money, as mentioned above, would receive eighty-five, or even ninety millions cash; and thus the actual annual charge for interest would be reduced to four and three quarters, or four and a half per cent.; while another country, borrowing in a real capital, would be subject to the full charge of five per cent. interest; leaving, thus, to the first country, a saving of *one fourth, or one half per cent.* a year; which, employed as a sinking fund, redeems the principal in a fixed period, and is an arithmetical proof of the *advantage in loans in a nominal capital, over those of a real capital.*

That a country, borrowing in a *nominal* capital, should receive, proportionally, *more* money for its loan than by borrowing in a *real* capital, is accounted for by the fact, that it is easier for the former to rise *to par*, than for the latter to mount *above par;* the former rises easier *to par*, because the sinking fund ceases to act when the price goes *above par;* and because the exercise of the right of repayment begins *at par*, and becomes dangerous to the holder of stocks *above par*. It is, therefore, very evident, that the contractors for a loan are enabled to grant better terms for one in a *nominal* capital, than for one in a *real* capital; and, consequently, the former is always more advantageous for the country.*

This question has undergone great discussions, both in England, and in France. The late President of the Council, Mr. Jacques Laffitte, has advocated in his Speeches in the Chamber of Deputies, (on the 14th and the 19th of May, 1828,) the same opinion that we advance here, but has done it with a degree of partiality, which we wish to avoid.

* In all loans, there are two kinds of lenders. One is formed by speculators operating upon the price of stocks, as upon any other article of merchandise; the others are capitalists, investing their money to make most interest. Those who prefer four per cent. interest on a nominal capital, entertain hopes that the credit of the country will improve, and that they will divide with Government the difference existing between the capital which they have *given*, and that which Government *promises*. And, in fact, in France, as in England, at the most critical periods, the loans have been at a premium the day after the contract. When we have borrowed at fifty and fifty-five, the funds have very soon advanced to sixty-four; and, on a new loan being made, they have risen to seventy-two; later, to eighty-nine; and, at last, to one hundred. Thus speculation bears on these promised differences of capital; I say, *promised*, for I think I have explained that this difference is never entirely paid by the State.

Speech of Mr. Jacques Laffitte, May 20, 1828.

In his Speech of the 14th of May, he says :—

" Is it preferable, in borrowing, to pay a *less rate* " of interest on a nominal *larger* capital, or to pay a " *higher rate* of interest on the capital actually re- " ceived? Of the two following proposals, which is " the most profitable? On receiving one hundred " millions, to acknowledge a debt of one hundred " millions, and pay five millions a year for interest, " or to acknowledge a debt of one hundred and thirty- " three millions and one third, and pay four millions " a year interest? The problem is not difficult to " solve. In the first case, you are only obliged to " repay the one hundred millions received, subject to " an annual charge of five millions for interest; in " the other, you promise one hundred and thirty- " three millions and one third, increasing thereby the " capital by one third; but incurring an annual charge " for interest of *only* four millions, there is a positive " saving of one million a year; and is this million " not a ready found sinking fund?

" In how many years will one million, with com- " pound interest, redeem a capital of one hundred and " thirty-three millions? In forty-five years. Thus, " at the end of forty-five years, the three per cent. " loan will be fully redeemed by the due application " of this saving of one million a year; whereas, " the annual charge of five millions will remain " upon the other, until the whole capital of one " hundred millions be repaid."

Farther on, he says:—

"Thirty millions of five per cent. rentes, forming "a capital of six hundred millions, have been con-"verted into three per cents.; and, under their new "form, they cost the country only twenty-four mil-"lions. It is true, that, instead of a capital of six "hundred millions, one of eight hundred millions "has been acknowledged; but the six millions, eco-"nomized yearly by the reduced rate of interest, will, "in the space of thirty-six years, if the redemption "is operated in five per cents., or in forty-five years, "if in four per cents., extinguish not only the addi-"tional two hundred millions, but the whole capital "of eight hundred millions. Do you think the ope-"ration a bad one? The sinking fund, if strictly "applied, will redeem the capital in thirty-two and "forty-two years, instead of thirty-six and forty-five "years."

Mr. Laffitte expresses himself thus, on the 19th of May.

"To borrow eighty millions, in five per cents., it "will cost—

	£4,000,000	for Interest.
	800,000	for the Sinking Fund.
in all	4,800,000	a Year.

"To borrow eighty millions, in three per cents., "with a sinking fund of one per cent. on the nominal "capital of £114,777,600., it will cost only—

	£3,443,328	for Interest.
	1,147,776	for the Sinking Fund.
in all	4,591,104	a year.

" These loans would be redeemed in thirty-three, " or forty-two years. Thus, the plan of the Minister " costs the country 208,896 frs. a year more than " the one which I propose. Does not this sum of " 208,896 frs. offer an immediate saving, or an addi- " tional sinking fund, which would redeem the debt " so much sooner? I must leave the decision to the " Chambers."

The partiality which we attribute to Mr. Laffitte, consists in his *not having started from the same point in the two plans*, and that one is much more advantageous than the other.

He says, in the first instance, " which offer is " the most profitable, to receive one hundred mil- " lions, and acknowledge this capital, on paying five " millions a year interest, or to acknowledge a ca- " pital of one hundred and thirty-three millions, and " one-third, and pay only four millions interest?"

But a country, which would be enabled to borrow the sum in question at five per cent. interest, would not probably succeed in raising the other loan at four per cent.; therefore, the starting point, which, in good logic, ought to be an *equal* credit, is erroneously stated by Mr. Laffitte, and, consequently, the arguments that follow are vitiated.

Both his other positions are placed in the same predicament. It is curious to see two such very eminent financiers, as Mr. Laffitte, and Sir Henry Parnell, plunge into opposite errors; the former in support of loans *in nominal capital*, the latter in support of loans or stocks, in the same amount as the sum lent. It requires, however, only a few figures to give a mathematical solution to the problem, which cannot be refuted.

We shall now proceed to another vital part of the question in the management of the debt, and examine which is most advantageous for the country, to borrow on *funded stock*, or to borrow in *terminable annuities*, as Sir Henry advises.

In Chapter XXII., on *terminable annuities*, Sir Henry adopts the principles of Dr. Price, and quotes the following passage, as expressive of his own opinions, page 285.

"It is obvious, that accumulating debt so rapidly, and mortgaging posterity for eternity, in "order to pay the interest of it, must, in the end, "prove destructive. Rather than go on in this "way, it is absolutely necessary that no money "should be borrowed, except in annuities, which "are to terminate within a given period. Were "this practised, there would be a limit beyond "which no National Debt could be increased; "and time would do that necessarily for the public, "which, if trusted to the conductors of its affairs, "would never be done. I am sensible, indeed, that "the present burdens of the State would, in this

" case, be increased, in consequence of the greater
" present interest which would be necessary to be
" given for money; but I do not consider this as an
" objection of any weight; for let an annuity be
" for one hundred years, such an annuity is, to the
" present view of man, nearly the same with an
" annuity for ever; and it is, also, nearly the same in
" calculation; its value, at four per cent., being
" twenty-four years and a half purchase, and, there-
" fore, only half a year's purchase less than the value
" of a perpetual annuity. Supposing, therefore, the
" public able to borrow money at four per cent., on
" annuities for ever, it ought not to give 1*s.* 7*d.* per
" cent. more for money borrowed for 100 years.
" But should it be obliged to give a quarter or half
" per cent. more, the additional burden derived from
" hence would not be such as could be very sensibly
" felt, and the advantages arising from the necessary
" annihilation of the public debt, by time would
" abundantly overbalance them."

Sir Henry adds, page 286 :—

" If all the loans which have been raised since the
" beginning of the war of 1739, had been borrowed
" in annuities for 99 years, in eight years, from this
" time, the extinction of them would commence, and
" in 84 years the whole debt incurred up to 1815,
" would be extinguished : more need not be said to
" prove the expediency of borrowing in terminable
" annuities."

" The objection that is made to raising money by "this plan, is the same as that made to borrowing "in stocks of real capital, namely, a supposed "unwillingness on the part of the public to lend "money in any but a low priced perpetual stock. "This has been shewn to be an objection resting "on no solid foundation; and it is quite certain, "that if Government wished to raise loans on ter-"minable annuities, it would be sure of obtaining "them, (after, perhaps, some difficulty in counter-"acting the schemes and combinations which "old loan contractors would at first enter into to "thwart it,) by having an open subscription, and "offering a proper rate of interest, and by not "being checked by the failure of the first at-"tempts."

"The mere statement of the operation of the "Act of 1829, for enabling the Commissioners of "the Sinking Fund to give, in exchange, terminable "annuities for money or stock, proves the cor-"rectness of these observations. From the 23rd "of November, 1829, to the 18th of December, "1830, the progress of the terminable annuities "has been as follows:—

"*For Annuities for terms of Years:—*

	£.	*s.*	*d.*
"Money actually paid - -	1,856,435	13	6
"Money value of stock transferred - - - - - - -	8,183,589	9	2
	£10,040,025	2	8

For Life Annuities:—

	£.	s.	d.
" Money taken - - - - - -	380,162	10	3
" Money value of stock - -	432,957	10	11
Total - -	£10,853,145	3	10

" It is by making a proper use of terminable " annuities, that the most easy, and, at the same " time, the most effectual means can be secured " of redeeming a considerable part of the debt, " and, therefore, if any Sinking Fund be kept up, " the whole of it should be applied in commuting " some of the annuities for ever, of which the " debt consists, into long annuities."

" With respect to getting rid of the present " great amount of unfunded debt, nothing would " be more for the public advantage than paying it " off gradually, by giving long annuities for Ex- " chequer Bills, instead of funding them in three " per cent. stock."

To re-establish, as Sir Henry here proposes, the system of terminable annuities, and to substitute them for *funded stocks*, would be to throw the science back to its infancy, would be to return to the times when no transfer of stock could be made, but by a notarial contract, and thus replunge into those grave errors which the genius of Pitt cleared away, and replaced by the luminous method that has since carried the credit of Great Britain to such a pinnacle of solidly based prosperity.

The following difference is experienced by the *holders* between *terminable annuities* and *funded stocks* :—

First,—By the annuities, the capital is *sunk*, the means of *redemption being too inconsiderable to be re-invested or fructified*, whereas, in the *funded stocks, the capital remains unimpaired at the disposal of its holder.*

Secondly,—Annuities are not *disposable*, unless as hypothetical securities, whereas, stock is *saleable at the market price*, and thus allows always of the use of the capital.

Thirdly,—Annuities which are *redeemable by lottery*, have the inconvenience of exposing the holder to the receipt of his capital at an unexpected period, when he may not meet with another eligible investment for his money; whereas, the capital placed in *the stocks*, unites the advantage of *an optional time of sale*, with that of perfect *stability*.

The investment in funded stocks is, therefore, so superior to that in terminable annuities, that a loan in the latter securities could only be effected *at a much higher rate of annual interest than in the former, and would consequently be more onerous to the State.* But another and still more detrimental inconvenience would be felt by the State, namely, the annual payment of a *fixed* amount as a sinking fund, whereas, according to the present practice, that amount is left *ad libitum*, and is not fixed by the *amount of the debt*, but by the *surplus of income ;* or in other means that may be applied to that use. By one of these methods of borrowing, the State has *its hands fettered*, the other *leaves them free.*

An arithmetical error of Dr. Price's has been adopted by Sir Henry Parnell, in asserting that a debt contracted in terminable annuities is more easily redeemed than one contracted in funded stocks. If the same amount of sinking fund be stipulated for each, the capital would be redeemed in exactly the same number of years; but if, in the latter case, the one per cent. interest, which, by Sir Henry's own acknowledgment, it would cost more to borrow in annuities than in funded stocks, is added to the sinking fund, it must be evident to every body's understanding that the latter debt would be sooner redeemed, and that it offers, therefore, this addition to the many other advantages it has over the other mode of borrowing.

Sir Henry, finding that annuities require a higher rate of interest than stocks, and feeling the excess of expense which this would entail on the State to be very contrary to his notions of economy, proposes a medium between the two methods, viz. to create annuities of one hundred years. He must, however, acknowledge, that even these annuities, notwithstanding their long term, would still cost the State *more* than stocks, would be *less disposable*, would *sink the capital they represent*, and would thus embrace all the inconveniencies of annuities, without having any of the advantages possessed by funded stocks; in short, an injurious financial anomaly.

Nothing is more important to the good management of a public debt, than the establishment of a proportionate sinking fund, (if possible, *quite independent of the annual budget of the State;* such as is *partly* the case in France;) a fund, which, in accordance to Mr. Pitt's plan, would redeem it *gradually;* not with the intention of its *total extinction,* which would prove a national calamity, but with that of *maintaining its value,* which is as necessary *to the public welfare* as it is to the support of *the credit of Government.*

We are touching here very closely the ground of Dr. Hamilton, and of Lord Lauderdale, both most respectable and enlightened writers, but in whose opinions we cannot agree on the subject of the uselessness of a sinking fund, for they appear to have considered the question only under one of its bearings, that of the more or less expense occasioned by a sinking fund, and overlooked, altogether, that no less important consideration, the *maintenance of the value of the debt* which results from its operation.

If, for the present, the credit of Great Britain be sufficient, and the redundancy of its capital large enough to render a sinking fund, on a fixed scale, and proportionate to the amount of the debt superfluous, it must not be taken for granted, that the exception to the rule is the rule itself; on the contrary, this requires a sinking fund, which, as suggested by Mr. Pitt, should be fixed at one per cent. of the capital, for the debt ought not to bear the character of *unredeemable*, which is the case when the sinking fund depends on the uncertain surplus of income over expenditure; *the debt* ought always to be *redeemable*, decreasing on one side, and ready to be increased on the other; but never to remain *fixed and immutable*; impressed with that character of torpor, which is incompatible with financial health, where all ought to be *animated motion, and rapid circulation*.

After having examined the public debt, and its management, under its various features, let us take a general view of the question; to enquire whether, as Sir Henry pretends, " we certainly " are less able than we ought to be, to resist " whatever attacks may be made on our freedom " and independence, as well as to interfere with " decisive effect in defence of the liberty of others."

It appears superfluous to draw a comparison here between the power and wealth of Great Britain, and the corresponding condition of the other countries of Europe. Facts speak for themselves. From Moscow to Lisbon, from Stockholm to Naples, where is the country that can stand any test of comparison with the British Empire, its wealth, power, industry, trade, and its general prosperity? Look at London, Liverpool, Manchester, Glasgow, Edinburgh, and almost all the large cities of the Empire; observe their increase, their improvements; look at the country, where mansions, country seats, villas, and public buildings of all kinds, on the scale of palaces, are rising daily; look at her 5,000 miles of canals and railways; her 15,000 steam engines in full activity; her Navy, composed of nearly 600 sail; and her merchant ships of a tonnage exceeding two millions; observe the progress of her industry; —and decide, whether Great Britan, far from being on the brink of decay, has not, on the contrary, attained such an ascendancy of prosperity, as has never yet been attained by any empire in former ages.*

We certainly do not mean to assert, that the public debt has been the only foundation of the

* Mr. Ricardo, in his Principles of Political Economy, says:—" Notwithstanding the immense expenditure of the " English Government, during the last twenty years, there " can be little doubt but that the increased production on the " part of the people, has more than compensated for it. The " national capital has not merely been unimpaired, it has been " greatly increased; and the annual income of the people, " even after the payment of their taxes, is, probably, greater " at the present time than at any former period of our history. " For the proof of this, we might refer to the increase of population; to the extension of agriculture; to the increase of " shipping and manufactures; to the building of docks; to the " opening of numerous canals; as well as to many other expensive undertakings; all denoting an immense increase, both " of capital and annual production."

power, wealth, and prosperity of the British Empire. No, these happy results are derived from the power of mind and general intelligence of its inhabitants; their courage, spirit of enterprize, industry, and perseverance; they are owing to the fertility of the soil of the United Kingdom, the riches of its mines, the commercial advantages of its geographical situation, and the wisdom of its political institutions. But if the moral and physical facilities just enumerated, form the *basis* of the powerful structure presented by Great Britain, it is not less evident that these facilities *owe much of their development to the existence of the public debt.* It is this debt which has afforded the means of extending to a greater number of individuals than in any other country, through the benefits of education, that moral energy, which is the first step towards the prosperity of a nation. It is this debt, again, which has supplied the means of developing the riches of the soil of Great Britain, of stimulating the springs of her industry, and of multiplying all the resources of her trade. It is this debt which has particularly given rise to *public credit,* that all powerful engine of national prosperity, and furnished the means of raising and maintaining that Army and Navy, which, if they have not contributed in a *direct way* to the increase of production, and thereby to the public welfare, have done it *indirectly* by the conquest of the immense Colonies possessed now by Great Britain, forming the outlets for her trade and industry.

Great Britain, placed at the head of European politics, able by a telegraphic order to dispatch from her ports the most formidable fleets, and direct them to any point of the world; having the power of reinforcing her army in every quarter of the globe, to the fullest extent of the need, by embodying her militia; in possession of arsenals provided with the materials requisite for at least five hundred thousand men, and capable, by means of her credit, of raising, in a few days, sums sufficient to cover the expense of several campaigns; surely such an empire does not present and sanction the picture of *impotence* drawn by Sir Henry. But, nevertheless, this yet imaginary decay may end in a real calamity, if not guarded against in time; observe many of the petitions presented to Parliament, calling for reductions and retrenchment the most inconsiderate and destructive to national power and prosperity. Economy is certainly desirable, when directed by judgment, but it becomes injurious, if, overstepping the due limits it should degenerate into an enfeebling parsimony.

It is this tendency of the mind towards unreasonable objects, which, after all, would not produce the anticipated result, (for no Administration can ever carry retrenchment to such an extent as to lighten materially the taxes,) which it appears necessary to repress and correct. This excessive passion for retrenchment is contrary to the financial interests of the country, contrary to the necessary activity of its circulating medium, and must prove fatal to the dignity of the empire; whose political influence in Europe would disappear, or be humiliatingly diminished, if successive retrenchments were to form the *basis* of all ministerial popularity.

Such a system could only be carried into effect, by sacrificing either the credit of the country and its property, in some shape or other, or the military or naval force of Great Britain; and, therefore, it becomes the duty of every friend of the British Empire to endeavour to dissipate the errors of ideas so ruinous to its welfare, and to place in their true light the principles of a wiser course of policy.

We cannot withhold our meed of praise to the general knowledge displayed, and the immense labour bestowed by Sir Henry, in a work which renders it highly valuable, particularly from its correct statistical tables. Several of the measures suggested appear most advisable; among which, that measure, which proposes the imposition of an Income Tax of one and a half per cent. But we apprehend, that Sir Henry, relying too much on the authority of some great names, has not given the whole subject of his work sufficient of his own reflection, and has thus fallen into some errors, as to the effects of the National Debt, and the principles of its management; errors which we have endeavoured to controvert, in order that they may not acquire, through the deserved confidence placed by the public in Sir Henry's talents, an authority most detrimental to its interests; happy, if our attempts have succeeded in raising *doubts* on positions hitherto laid down as *axioms;* for this doubt may, hereafter, acquire strength in more skilful hands; and its discussion may contribute to solve one of the most important and difficult problems of political economy, namely, *What influence the existence of a public debt exercises over the prosperity of a country?*

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